



# INTERNAL AUDIT AUDIT FINDINGS FOLLOW-UP ANNUAL REPORT



December 9, 2003

Roanoke City School Board Audit Committee  
Roanoke, Virginia

We have completed our findings follow-up audit for fiscal year 2003. This audit was conducted in accordance with generally accepted government auditing standards.

## **BACKGROUND**

At the conclusion of each audit assignment, we work with management to develop plans of action to address reportable conditions such as significant control weaknesses, non-compliance with policies and procedures, and violations of laws and regulations. We are required by government auditing standards to follow-up on all significant findings to determine if issues from the original audit were appropriately addressed. To satisfy this requirement, we maintain a database of audit findings reported to the School Board that includes management's planned actions and the target date for implementing those plans.

Each year we print a report of all outstanding findings due to be implemented by a specified target date in the current year. We notify, by memo, those departments with outstanding findings and ask that they respond back to us about their progress towards resolving their findings. Once the departments respond, we schedule site visits so that we can observe any changes they've implemented and test the effectiveness of those changes. Those findings that have been satisfactorily addressed are marked as such in our database and require no future review. Those findings in which the planned actions have not been fully implemented are left open in the database and will be followed up on next year.

## **PURPOSE**

The purpose of this audit is to determine the progress management has made in implementing their planned actions to address outstanding audit findings.

## **SCOPE**

We followed up on outstanding findings in Roanoke City Public Schools that were due to be addressed by June 30, 2003.

**METHODOLOGY**

As described in the background above, we use a database to track the status of all reported audit findings. We perform limited observation and test work to determine the effectiveness of actions taken by management in response to audit findings. We review any on-going concerns with management, revise implementation plans and dates as needed, and prepare a written report.

**RESULTS**

There were 15 audit findings primarily involving three departments that were due to be addressed by June 30, 2003. The following audit findings have been satisfactorily addressed:

- Food Services inventory withdrawals are now properly supported and inventory records are updated in a timely manner. Formal inventory management procedures have been developed by the Director of Food Services.
- Transportation has developed and is using a check list to document the behind-the-wheel evaluation of drivers that is required to be performed annually. Adequate records are being maintained to document classroom training, behind-the-wheel instruction of new drivers, and assessment of drivers' competence. Transportation is performing bus inspections as required by law, after every 30 days in service or 2,500 miles, whichever is sooner.
- Building Maintenance is now adequately documenting the specific health or safety risk to justify emergency procurement on the quotation exception forms and is including a specified date on which the work is to be completed. Small construction jobs costing more than \$10,000 now have written contracts that include required provisions for the contractor to maintain a drug free work place and not to discriminate in hiring, as required by State law.

The following audit findings have not been satisfactorily addressed. These have been discussed with management and will be reviewed again next year.

**Food Services:**

**Original Finding:** A good system of internal controls over inventory typically separates the duties of ordering inventory, receiving inventory, recording inventory, and physically verifying inventory. We found that there is an insufficient separation of duties over the various inventory processes at the schools. A single person at the individual school cafeterias typically completes all of these duties.

**Follow up:** A component of the agreed upon action to address the audit finding was to have the Food Services Coordinators perform regular inventory and procurement verifications at the schools to validate the accuracy of each school's inventory records. We noted that the inventory and procurement verifications were not documented by the Food Services Coordinators. A new form was designed to document the verifications.

This finding will be carried over into 2004 to provide time for the new form to be implemented.

**Management Response:** The Director of Food Services has developed a form for Food Services inventory verification. It will be used effective December 15 to document inventory process verification.

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**Original Finding:** We found that internal controls over receiving inventory could be strengthened. There was insufficient documentation and verification that goods received were actually ordered by the cafeterias. In several instances (5 of 30 items tested or 17%), we noted that the school either received inventory that was different from that which was ordered, or the school paid the wrong price for the inventory. Additionally, we noted that in 25 of 30 items received (83%), no expiration or received date was listed on the inventory.

**Follow up:** Our test work indicates that the food items purchased have been awarded to the correct vendor based on the listing of winning bids. Our testing also indicates that the Food Services department is paying the bid price quoted in the winning bid. The one issue that remains unaddressed is the date stamping of inventory to ensure inventory is maintained on a first-in first-out cycle and that past-date items are properly discarded. Our testing found that cafeterias are not date stamping their inventory at the time of delivery.

**Management Response:** The Food Services coordinators will ensure that the Cafeteria Managers date-stamp the inventory at the time of delivery.

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### **Transportation:**

**Original Finding:** The Transportation department was not fully compliant with 8 VAC 20-70-160 in the following areas:

- The Transportation department did not document the review of bus route safety. The Safety Coordinator stated that he evaluated routes for safety while performing behind-the-wheel driver evaluations. However, the Safety Coordinator did not document his evaluations of bus route safety or the actions taken to address safety concerns.
- The Transportation department was not performing annual evaluations of bus routes required to address issues of fuel conservation and maximum use of the buses. Transportation typically started a new school year with basically the same bus routes that existed at the end of the prior school year and adjusted routes as needed in the first few weeks of school.

**Follow up:** Transportation is now evaluating the safety of each bus route on an annual basis by utilizing a hazard form. The Transportation department has purchased new routing software, which was installed in October 2003. The software is expected to be

fully operational by April 1, 2004. The new software will allow for the assessment of the economy and efficiency of routes. This finding will be carried over to 2004 in order to allow time for the new software to be fully implemented and evaluated.

**Management Response:** Management agrees with the proposed action.

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**Original Finding:** We noted one instance in which an employee in our test sample was not paid for 10.25 hours of work performed. In another instance, an employee was not charged leave for an absence. Also, adjustments to an employee's reported time were not documented on original payroll source documents.

**Follow up:** A new time and attendance software program was installed in September 2003. We will follow up on this finding next year when we can assess the effectiveness of the new software program.

**Management Response:** Management agrees with the proposed action.

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**Original Finding:** We noted that adequate controls were not in place over the purchase of parts. When special order parts were purchased for specific buses, the purchase order number was not documented on the work order, nor was the work order number recorded on the purchase order. Parts ordered for stock were not recorded on an inventory listing. There was approximately \$3,800 in stocked parts that were not monitored with an inventory listing at the Transportation department.

**Follow up:** The Office of Technology installed a new inventory program that will be used for the tracking and ordering of inventory. We will follow up on this finding next year when we can better assess the effectiveness of the new software program.

**Management Response:** Management agrees with the proposed action.

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### **Building Maintenance and Operations:**

**Original Finding:** In December 2002, we identified 52 small construction jobs awarded since 2000 without properly obtained competitive quotes. We found that a number of vendors listed on the purchase orders as competing for jobs were not qualified to undertake the work. Most vendors were never actually contacted and never provided the quotes that had been documented on the purchase orders. This resulted in Roanoke City Public Schools paying above the market rate for construction work.

At the time of the audit, Roanoke City Public School's procedures did not address the need for detailed job specifications to ensure contractors were quoting on comparable material and quality requirements. The procedures did not require that quotes be in writing and filed with the purchase orders. Also, Maintenance did not have a well developed listing of qualified vendors from which to solicit quotes.

**Follow up:** A revised Procurement Manual was released in August 2003 and requires written specifications to be developed for all small construction jobs expected to exceed \$1,000 in cost. The Manual also requires that written quotes be provided on a standard form and that these forms be filed with the purchase order. Additionally, each quarter the Director of Fiscal Services verifies the authenticity of a sample of quotes by personally contacting vendors.

Upon reviewing the purchase order files in Maintenance, we determined that quotes or faxes showing requests for quotes were on file with the related purchase orders as required. We also reviewed the results of the quarterly reviews conducted by the Director of Fiscal Services and found that all quotes he verified were determined to be authentic.

Our review included evaluating the specifications provided to contractors to determine if those specifications were sufficiently detailed in writing to ensure quality materials and work would be quoted and provided by the contractors. We found that in some cases, the specifications did not adequately document the quality of materials or work to be provided.

To address audit concerns about identifying qualified vendors to compete for school work, the Maintenance department held a small contractor's workshop in early calendar year 2003. The Maintenance department also compiled a spreadsheet of vendors from which it could request quotes. Upon reviewing the vendor list, we identified 13 contractors that were not licensed to do construction. We also found that many of the vendor records were incomplete. Items such as licenses, phone numbers, and addresses were not in many of the vendor records.

As we reviewed the small construction jobs awarded by Maintenance, we noted the following concerns:

- Seven contractors who were awarded jobs were not listed in the vendor spreadsheet. In order to build a broad base of vendors, the vendor listing should be updated as new vendors are identified.
- Three construction jobs at school buildings were completed by contractors that did not hold the required licenses to perform the work. Licensing is administered by the State and is intended to ensure contractors have the required knowledge and skills to safely and competently perform any work undertaken by the contractor. The following describes two of the jobs identified:
  - A job to relocate a modular classroom was awarded to a contractor who provided a quote of \$21,537. The contractor had a Class C license issued by the State of Virginia that restricts him from taking jobs that exceed \$7,500 in total value. The contractor was denied a building permit by the City's Planning, Building and Development department based on his license. The Supervisor of Buildings and Maintenance then instructed someone on the Maintenance staff to apply for the permit. The staff person applied and certified on the permit application by his signature that the work would be performed by an appropriately licensed contractor. The permit was issued in

the name of Roanoke City Public Schools and the work was then performed by the Class C contractor. The contractor was paid in three installments, each under \$7,500, per the approval of the Supervisor of Buildings and Maintenance. A second job was awarded for \$14,637 for interior construction at Noel C. Taylor to the same contractor and the building permit was obtained in the same fashion as it was for the modular relocation. Payment for this job was similarly made in two installments, each under \$7,500.

- Four jobs which were required to have building permits were performed without the contractor obtaining the required permits. The requirement that building permits be obtained is designed to ensure construction projects are performed by qualified persons and that the work is subject to inspection. City Inspectors inspect the work to ensure it meets building code requirements.

**Management's Response:** Appropriate personnel action was taken earlier this year with the Maintenance Supervisor who is responsible for coordinating small construction projects. The Supervisor will ensure that appropriate licenses and permits are provided by the contractor prior to the start of the project. In-service was conducted for Maintenance Supervisors in November on State and City regulations regarding contractor licenses and building permits. The Supervisors also familiarized themselves with State and City guidelines for contractor licenses and building permits using the State Department of Professional and Occupational Regulation and City of Roanoke websites in order to verify the appropriateness of licenses and building permits obtained by School contractors. During November, the Supervisor of Maintenance updated the contractor data file in order to ensure that the accurate and complete information is included in the file. The Manager of Procurement now reviews all documentation regarding small construction projects awarded by the Supervisor of Maintenance to ensure appropriate procedures have been followed by the Department of Maintenance prior to issuing a purchase order to the contractor.

The Schools are in the process of entering into a joint agreement with the City regarding an "on-demand" contract for small construction jobs. The use of the contract will ensure contractors pre-qualify for City and School construction work.

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**Original Finding:** Based on a limited review of equipment purchases, inventories, and the fixed asset records, we noted the following concerns.

- Duties were not adequately segregated. The former Supervisor of Maintenance and Operations was initiating purchases, completing purchase orders, approving purchase orders, picking up equipment from the vendors, and had unrestricted access to the equipment storage rooms. This made it impossible to account for school property with any acceptable degree of certainty. It also caused certain types of equipment, such as chainsaws, to be overstocked.
- Equipment purchased by Maintenance and Operations was in many cases not properly reported to the Warehouse for entry into the fixed asset system and was not stenciled or engraved.

- We identified four purchase orders for equipment on which the competing quotes were fabricated.

**Follow up:** The School Administration issued revised procedures for fixed assets, requiring that all equipment be delivered by the vendor to the warehouse. All equipment exceeding \$500 in value is to be engraved or stenciled, and entered into the fixed asset system before being taken to the departments. As an added measure of control, the Director of Fiscal Services selects a minimum of 10 equipment purchases quarterly and verifies that each appears on the fixed asset inventory listing.

As for the Maintenance department's equipment, the department has created a listing of equipment in storage. The department is now requiring employees to complete an equipment loan form and is keeping completed forms on file. We tested the completeness of the inventory listing by selecting items in the storage room and tracing them back to the listing. We found that 3 of 10 equipment items selected from the room were not on the inventory listing, indicating that the listing is incomplete. All of the equipment was engraved or stenciled.

**Management's Response:** The responsibility for the small equipment inventory has been transferred to the Supervisor of Operational Services in order to provide a more accurate inventory since the majority of the equipment is used in Operational Services for grounds upkeep.

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**Original Finding:** Labor and material costs reported by the Service Call work order system are not complete and accurate. Without complete and accurate data, management cannot accurately determine the costs of maintaining specific equipment or facilities, and cannot manage the productivity of department staff.

**Follow up:** The Maintenance department cleared the service call system of all data in 2002 and reset the system. A tradesman was assigned the responsibility to maintain the system data, to process work requests, to produce productivity reports, and to troubleshoot system problems. The department also revised its standard operating procedures to fully utilize the work order system. All work requests from schools and supporting departments were required to be submitted via e-mail. Tradesmen were expected to account for 7.5 productive hours per day, including travel time. Management began compiling a monthly efficiency report that compares hours charged to work orders to available productive hours for each tradesman. A target efficiency of 85% or better was established by management. We reviewed the data in the Service Call system and traced certain entries back to original work orders to verify the accuracy of the data. We noted the following concerns:

- 10 of 20 work orders reviewed in the system had no labor hours entered.
- 7 of the 20 were assigned improper priority codes based on our review of the description of the work compared to the definition of each priority code.

- 5 of the 20 were not completed timely based on the priority code assigned and the Maintenance department's own guidelines.
- 4 of 9 work orders that would require materials based on the description of the work had no material costs recorded.
- Labor rates utilized in the Service Call system have no basis.

We next considered the monthly efficiency reports used by management to evaluate staff productivity. We found that the monthly efficiency reports were being compiled manually by going through the paper work orders and inputting the time worked by each employee into a spreadsheet. When we attempted to validate the data in the September 2003 efficiency report, we found that the hours worked could not be validated for any of 30 employees whose time was tracked. Furthermore, for 18 of 30 employees we could only account for less than 50% of the hours reported as worked on the September efficiency report. The Supervisor of Buildings and Maintenance could not explain the variances or provide additional support for the hours reported.

**Management's Response:** The Service Call work order system requires an inordinate amount of manual documentation and input. The City Auditor and Assistant Superintendent for Operations agree that further use of the system would not be productive. Consequently, effective December 15, a manual work order system will be implemented using a simple spreadsheet to document work orders and man hours. The City of Roanoke will be purchasing a new work order system for its operations in late Spring of 2004 and the Schools will enter into an agreement with the City for the joint purchase and implementation of a web-based work order management system for maintenance operations.

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We want to thank Roanoke City Public School employees, managers, and administration for their cooperation and assistance in completing the follow-up audit.

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